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**Attorneys for
Defendants Karel Anne
Williamson, Kyle
Warren Thompson,
Kenneth Fleming, II,
Marc Pieroni, Brian
Jones and James Lilly**

FILED
JUL 27 11 19:13
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BY 

**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEVADA**

CV-N-03-0119-HDM-VPC

**Thomas A. Dillon, Independent
Fiduciary of Employers Mutual Plans**

Plaintiff,

v.

James Lee Graf, et al

Defendants

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**MEMORANDUM OF
PRELIMINARY
UNDERSTANDING
OF FACTS AND CRITICAL
FACTUAL AND LEGAL
ISSUES**

**MEMORANDUM OF PRELIMINARY UNDERSTANDING OF FACTS AND CRITICAL
FACTUAL AND LEGAL ISSUES**

Comes Now, Karel Anne Williamson ("Williamson"), Kyle Warren Thompson ("Thompson"), Kenneth Fleming, II ("Fleming"), Marc Pieroni ("Pieroni"), Brian Jones ("Jones") and James Lilly ("Lilly") named as Defendants herein, and, pursuant to the Court's order of March 25, 2003, received by the undersigned on July 25, 2003, file this their Memorandum of

**MEMORANDUM OF PRELIMINARY UNDERSTANDING OF FACTS AND CRITICAL FACTUAL AND
LEGAL ISSUES**

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Preliminary Understanding of Facts and Critical Factual and Legal Issues, respectfully showing the following:

I.

FACTS

1. Plaintiff Thomas A. Dillon has brought suit against hundreds of parties, with four individuals being named as RICO Defendants and approximately 400 individuals being designated as "Retail Insurance Producer Defendants" ("Producers"). Williamson, Thompson, Fleming, Pieroni, Jones and Lilly are among the latter category.

2. This action stems from claims that certain Employee Welfare Benefit Plans ("EWBP's"), also known as Employer's Mutual Plans, were created and sold as if coverage existed, when in fact it did not."). Williamson, Thompson, Fleming, Pieroni, Jones and Lilly were among those who were duped into participating into what they believed were legitimate health benefit plans. Williamson and Pieroni, in particular, called employees at the Texas Department of Insurance to check into the legitimacy of the proposed health benefit plans and were told that TDI possessed no negative information about these programs. Thompson, Fleming, Jones and Lilly also took diligent steps to inquire about the legitimacy of the Employer's Mutual Plans. Williamson was also duped into arranging meetings at which Producers were recruited into the insurance program primarily by Defendants other than Williamson.

3. Williamson, Thompson, Fleming, Pieroni, Jones and Lilly were innocent victims of false representations made by certain of the RICO Defendants and/or other named Defendants. On July 29, 2003, the Texas Commissioner of Insurance ("the Commissioner") levied fines totaling \$12.5 million against the operators and chief marketer of Employers Mutual LLC. The Commissioner's order fined William R. Kokott and Nicholas E. Angelos, both of Carson City,

Nevada, \$5 million each and levied a \$2.5 million fine against American Benefit Society ("ABS"), later renamed Association Benefit Society of Turnersville, New Jersey. Kokott and Angelos were EM's sole managers and officers. Kokott served as chairman. The Commissioner's order found that Kokott, Angelos and ABS had illegally engaged in the business of insurance in Texas without the licenses required by state law and had misrepresented EM as a legitimate insurance plan. The Commissioner ordered EM in October 2001 to stop selling insurance in Texas.

4. The pervasive and fraudulent nature of the activities of Kockett, Angelos and ABS are in stark contrast to the limited involvement of Williamson, Thompson, Fleming and Pieroni. Williamson's only role in this entire matter was to participate in a handful of meetings, having previously received assurance from the Texas Department of Insurance ("TDI") that the parties allegedly writing the medical and health insurance were bona fide and had no investigation or other adverse action pending against them. Thompson, Fleming and Pieroni sold the subject insurance policies for short periods of time, one or two months, also under the belief that the plans were legitimate and that the Texas Department of Insurance had no problems with Employers Mutual or ABS. Williamson, Thompson, Fleming and Pieroni each took immediate steps to notify their subject customers of the problems with the health benefit programs after the Texas Commissioner of Insurance issued a Cease and Desist Order.

4. Thus, after only a few months of involvement, Williamson, Thompson, Fleming and Peironi first learned that the insurance products being sold were in fact non-existent. Williamson immediately alerted those Producers with whom she had had involvement to cease and desist the placement of insurance under the Employer's Mutual Plans. Some agents did not heed her warnings and continued to sell the non-existent plans, but Thompson, Fleming and

Pieroni¹ were among those that took immediate steps to cease writing the business, to notify the customers affected by these health benefit plans and, if possible, to place those customers with legitimate carriers. TDI enlisted Williamson's aid in shutting down the program and the primary sponsors. Williamson cooperated fully and in fact assisted TDI in shutting down the program and in the issuance of appropriate cease and desist orders. Thompson, Fleming and Pieroni each fully cooperated with TDI in supplying information requested by TDI investigators. Williamson and Thompson have entered consent orders with the Texas Department of Insurance in which TDI alleged they received commissions from unlicensed persons. The consent orders require Williamson and Thompson to pay fines, reduced by restitution paid, and to take additional continuing education courses in insurance. TDI did not allege that either Williamson or Thompson had been engaged in fraudulent activities or unauthorized insurance. It is expected that Fleming and Pieroni will enter into similar orders with TDI.

5. Williamson, Thompson, Fleming and Pieroni are victims whose actions were prudent and, once having discovered the fraudulent activities of the promoters of the insurance program, were laudatory and helpful to the consuming public.

6. Among the misrepresentations made to Williamson, Thompson, Fleming and Pieroni were assurances that the policies in question would, in fact, be issued by Golden Rule Insurance Company, a legitimate insurer licensed by the State of Texas. The ABS and Employers Mutual principals were sophisticated crooks and were deceptive enough to convince Texas agents that they did, in fact, have a contract with Golden Rule.

7. Affiliated Companies and Counsel

Other than the four listed defendants represented by the undersigned counsel, counsel is currently aware of only Liberty Insurance Underwriters, Inc., insurance carrier for

¹ Pieroni did not have a business relationship with Williamson.

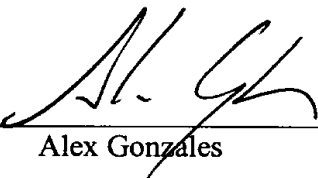
Pieroni, and Westport Insurance Company, which is the errors and omissions carrier for Thompson and Fleming (coverage is currently being denied by Westport). This list will be supplemented as information becomes available.

8. List of Related Cases.

Counsel and the defendants listed herein are aware of no related cases involving these defendants in state or federal court.

Respectfully submitted this 31 day of July, 2003.

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